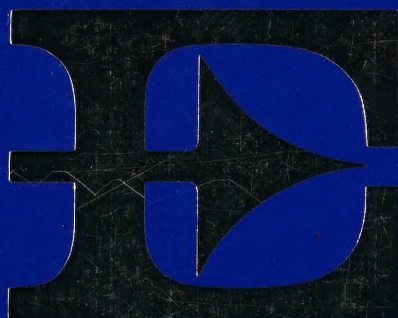


AR79



ELECTROHOME

ANNUAL REPORT

1971

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Headquarters building for Corporate Service Division.



Electronic excellence and styling craftsmanship in this advanced color television design.

HIGHLIGHTS	1971	1970
Sales	\$69,753,530	\$51,299,551
Net Income	3,012,625	1,309,175
Earnings per common share*	4.95	**2.55
Income Taxes	3,250,900	1,465,000
Depreciation	886,919	700,389
Working capital	8,452,207	7,200,354
Fixed assets (net)	8,611,849	7,322,955
Long term debt	3,031,966	3,253,251
Shareholders' equity	15,672,391	12,924,541
Number of employees (average)	2,487	2,182

*After allowance for preferred dividends paid

**Restated



Electrohome's Executive Committee: C.A. Pollock (seated),
D.S. Sykes (left), J.A. Pollock and H.W. Main

Board of Directors

C.A. Pollock, *Chairman*
W.A. Bean
H.W. Main
Mrs. C.A. Pollock
J.A. Pollock
D.R. Steele
D.S. Sykes

Officers

C.A. Pollock, *President*
H.W. Main, *Executive Vice-President, Marketing
and Public Relations*
D.S. Sykes, *Executive Vice-President, Finance and
Corporate Relations*
J.A. Pollock, *Executive Vice-President, Operations*
H.I. Eby, *Secretary-Treasurer*

Executive Committee

C.A. Pollock, *Chairman*
H.W. Main, *Executive Vice-President*
D.S. Sykes, *Executive Vice-President*
J.A. Pollock, *Executive Vice-President*

Transfer Agents

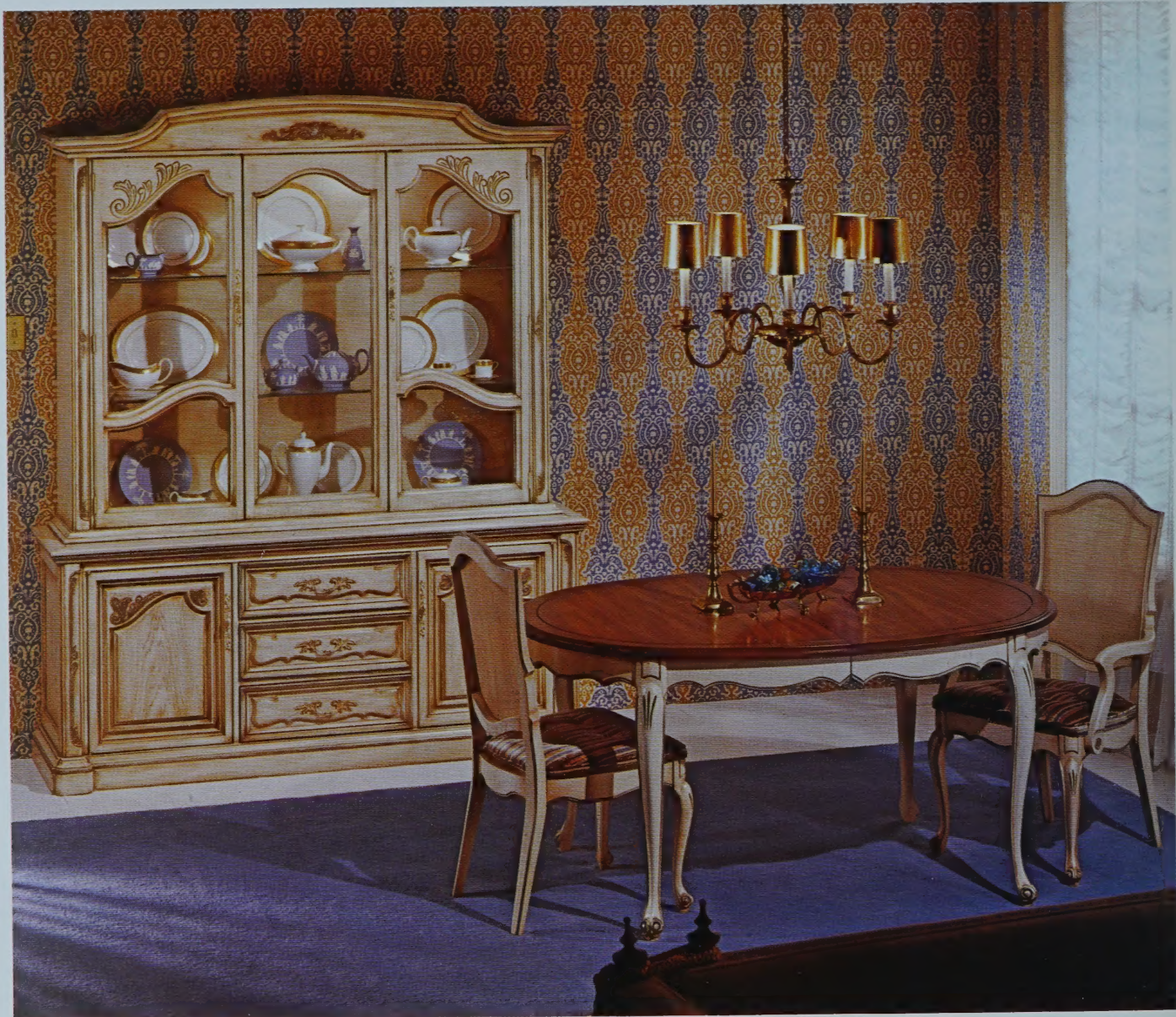
Common Shares
Montreal Trust Company, Toronto, Montreal,
Winnipeg
Preferred Shares
National Trust Company, Limited, Toronto,
Montreal, Winnipeg, Vancouver

Solicitors

Clement, Eastman, Dreger, Martin & Meunier
Kitchener, Ontario

Auditors

Thorne, Gunn, Helliwell & Christenson
Kitchener, Ontario



The delicate beauty of authentic French Provincial design is reflected in this beautiful Deilcraft dining suite.

PRESIDENT'S REMARKS



C. A. Pollock,
President

To the Shareholders:

The evolvement and growing fulfillment of long-term plans is the most satisfying development businessmen are privileged to experience and enjoy. The ten-year financial review of Electrohome's operating history and the statistical graphs clearly show the steady growth of sales, the consistent attention and expenditures on product research, engineering and design, the cautious balance of the needs of working capital and new facilities, always keeping shareholders' equity in mind. These plans and strategies designed and carried out by our many dedicated member employees over the years, strengthened Electrohome's position as a creative designer, producer and marketer of consumer and original equipment products and of broadcasting services. It is, therefore, with much satisfaction that we advise that a record sales volume was achieved in our sixty-fourth year of business, reaching a total of just under 70 millions of dollars, sales and excise taxes not included. The improvement over 1970 of approximately 19 millions of dollars amounted to 36%. Profits too recovered sharply from 1970 figures and also exceeded by 62% the previous record year of 1969.

While 1971's improved performance was substantial compared with the increases of a few years ago, this growth of Electrohome's sales was the direct result of consistent policies and practices by all divisions. Careful planning over the years added to the company's broad range of quality products and services which did much to ensure customer acceptance and approval. The public image of the names Electrohome and Deilcraft stood at an all-time high in the fall and winter of 1971, a fact we feel augurs well for the company's sixty-fifth year of business in 1972.

Economic Climate

The profits achieved in 1971 reached a satisfactory level for the second time in recent company history. As the

ten-year financial review shows, profits had until 1969 consistently been on the low side and a smaller percentage of the sales dollar than that recorded by the average manufacturing company in Canada. Profits in 1971 amounted to 4.3% of the sales dollar, which is slightly above the previous record year of 4.2% in 1969. There was of course good reason for the lower profits in previous years, because the costs of development, growth and borrowed working capital are always high. As well, the electronic, electrical and now the wood-working businesses require continuous innovation to meet the increasingly competitive market conditions. The results for 1971 did show what can be achieved when preparedness meets opportunity.

To a manufacturer of consumer products, 1971 provided a number of favourable improvements in the Canadian economy which aided our operations. Residential construction was an important factor, showing healthy activity throughout the full twelve months. As well, spending on practically all consumer wants and needs was buoyant. Government spending which increased by 24%, undoubtedly helped to improve business in the private sector, but make-work programs are not the kind of stimulant that are best for the Canadian economy. Labour-management relations were more settled than in 1970 but increased wages still added appreciably to inflation because the productivity gains made were not on a par. President Nixon's approach to economics had an unsettling effect on countries around the world. During 1971, Canada's trade surplus in goods and services shrank sharply from 1970 figures. All in all, a year of confusing trends, yet one in which significant gains in gross national product seemed to indicate less consumer concern than was characteristic of 1970. For Electrohome, many more of our products entered Canadian homes in 1971, and export business showed an improvement. It is a point of considerable current interest that Electrohome's international trade balance of payments is a plus in Canada's favour.

These satisfying results were due to the combined efforts of all those who participated in our work. To member employees from coast to coast, your directors express the thanks of Electrohome's several thousand shareholders. Too, the more than twenty-five hundred members who comprise our operating team express their appreciation of the co-operation and support provided by our dealers and distributors, our suppliers of materials and services, and our bankers.

Company Activities

Electrohome's objective always has been to become a strong Canadian owned and operated enterprise, achiev-

ing and maintaining a self-sufficiency which would enable it to occupy a leading place among the companies active in the industries in which it operates. Good progress towards this objective has been made in the entertainment product industry, the comfort appliance industry and in the production and sale of sub-fractional horsepower electric motors. In the living space furnishings industry, Electrohome has become one of the largest manufacturers and perhaps the most diversified enterprise in this field in Canada. This last referred to position has been brought about by the recent acquisition of Flexsteel Industries (Canada) Ltd., a well regarded manufacturer of upholstered furnishings.

The broadcasting activities of Central Ontario Television Limited, acquired in late 1970, diversified the company's service to the public and in 1971 expanded its television coverage into the Georgian Bay area, thereby attracting an appreciably larger audience which should enable more Canadian program originations. The radio services of CKKW and CFCA-FM will develop further over the years to come, appealing to local and regional audiences.

External Activities

Over the years, Electrohome personnel have taken active parts in the work of associations devoted to the purpose of advancing the place of industries in the Canadian economy. While providing support for the good work accomplished by these important organizations, these affiliations have given our members a better understanding and appreciation of the economic factors which are involved in Canada's development. In this way, the outlook and opportunities of Electrohome as a Canadian company have been broadened. As well, Electrohome members have participated in community affairs, playing useful roles in making the cities and towns where Electrohome is located, better places in which to live and work. One of our objectives is to be a corporate good neighbour.

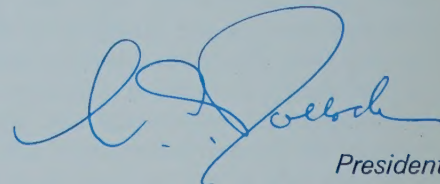
Future Outlook

As to Electrohome's outlook for 1972, we have confidence in its continuing promise. During 1971 additional facilities were constructed or in progress designed to enable increased volumes of production to be more efficiently manufactured, handled and stored. Sales and service offices and depots were enlarged and improved to expedite products to our customers and the public. Flexsteel's two plants ensured a broadened line of furnishing products and Central Ontario's added television coverage serves a growing new audience. These enhanced facilities should provide opportunities for

added sales and profits. To achieve an improved level of results will of course mean careful planning and very good engineering, product design, manufacturing and marketing to provide our customers with the best of product values. All members of the Electrohome team will be required to perform their tasks with sincerity, dedication and a high level of productivity so that good competitive costs can be achieved.

As well, the general business climate must be buoyant and consumers and businessmen must have confidence in the economic future if 1972 is to set new Canadian records. Regardless of the Federal Government's efforts to relate to business and to recognize the need of a viable manufacturing industry as an essential element of a balanced Canadian economy, the rapport between these two very important elements is not as close as it needs to be. The Federal Government's approach continues to call for an open economy characteristic of a nation interested primarily in the export of raw and resource materials. If Canada is ever to become the industrial nation equal to its potential, our business climate must include policies and strategies which will stimulate a much greater self-sufficiency in primary and secondary manufacturing. These industries are urged to export around the world but are not afforded an environment conducive to the development of a domestic capability which will be strong enough to do so. The Science Council of Canada has aptly characterized the situation in its report entitled, "Innovation in a Cold Climate."

Despite the complexities of the current economics in Canada, Electrohome has before it challenging opportunities which our entire organization intends to make full use of in the years to come. We will do so because the philosophy, objectives and policies of our Canadian enterprise are attuned to growing with Canada. You, our shareholders, can be assured that in your and our interests, because all of us are Canadian, we will be trying just a little bit harder.



President



Careful Italian Provincial detailing highlights this distinctive Electrohome stereo design.



J. A. Pollock,
*Executive Vice-President,
Operations*

The dynamic sales growth of 1971 required corresponding changes in all operational areas of the company, in terms of people, buildings, and equipment. Electrohome's average employment during this year increased from approximately 2,200 to 2,500; our office, warehousing, and manufacturing space owned or occupied by all areas of the company, expanded by 5% to 1,325,000 sq. ft., and our expenditure for machinery and equipment, exclusive of buildings was \$1,279,000 which was double the 1970 level. These added facilities primarily became effective during the latter half of the year, with the result that all areas of the company have significantly added to their annual productive capacity.

Electronics Division

Color television continued to be Electrohome's single most important product. Our growth in this area in 1971 of 58.5% in dollars, again exceeded forecasts which in themselves were very ambitious. Although approximately 33% of the color receivers sold in Canada were imported, Electrohome's ability to compete and improve our market position in this very competitive field is indicative of the strengths that the company has developed, both in terms of product acceptance and marketing expertise.

In the national environment, the Federal Government's positive action in removing the 15% excise tax on home entertainment products in May, significantly enhanced the value of these products to the consumer and removed a level of tax discrimination against our industry which was long overdue. The mid-summer anti-dumping hearings on portable television which found that injurious dumping was taking place, provided a second meaningful assist to the Canadian industry. Finally, in November, the re-evaluation of world currencies resulted in an upward price adjustment in offshore product, especially imports from Japan, which will positively influence the future competitive position of domestic manufacturers.

Internally in 1971, we introduced our new C11 hybrid color chassis which was our first step towards an all-transistorized design. Its excellent acceptance again

set a new level of standard in the Canadian industry. Although our color facilities underwent a major expansion, our capacity proved to be insufficient, due to the excellent acceptance of our new product, coupled with a buoyant overall consumer demand. The resulting pressure for increased output stressed our total manufacturing operation. To balance this pressure, new rigid programs of quality assurance were instituted to assure that a consistent high standard of performance and reliability was maintained.

As we move into 1972, the addition of 75,000 sq. ft. of production space, the introduction of new chassis and features, the change to a partial two-shift operation, and a major strengthening of our total engineering, manufacturing, and marketing organizations, will do much to maintain and expand upon the strengths we have established during the last few years.

Electrohome's traditional excellence in the field of Stereo Hi Fidelity was also broadened in 1971. The introduction of a number of unique pedestal designs, coupled with a continuation of style, feature, and performance leadership in cabinet models, resulted in a significant sales increase while the overall market declined. Our entry into the quality component field, through the offering of the world famous Marantz line, plus the expansion of Electrohome's activity in compact stereo, significantly broadened our capability in the audio field. Further expansion in this area in the years ahead should assure that your company will maintain its tradition of excellence in this important market.

The company's expanded activity in the educational and monitor television fields resulted in substantial growth through world wide exports, as well as a dominance in the Canadian marketplace. New model introductions, coupled with an engineering and manufacturing capability that lends itself to these specialized products, should present excellent future opportunities for growth.

The total management team in the Electronics Division is very aware of the dynamic nature of their products. Our long range development programs recognize this fact and we intend to maintain a position of design, performance, and value leadership.

Appliance Division

The increasing awareness of our home atmospheric environment by today's consumers has led to a meaningful expansion in the sale of our home comfort products. A major design and tooling program in these fields, plus the portable phonograph area, was undertaken in 1971, with a limited number of these products reaching the market during the year. Further development of our futuristic "bubble" stereo phonograph products made a note-

worthy contribution to the division's business. Although overall sales reached a new high – increasing by 18.5% – the imposition of the U.S. surtax in the important fall selling period, plus a change in certain areas of our Canadian merchandising program, resulted in our progress being somewhat below forecast. With the significant strengths that have been developed in engineering, manufacturing, marketing and product innovation, when coupled with an expansion of our production capabilities during the latter half of 1971, it is expected that the opportunities for growth in this division's fields of endeavour will be very meaningful to the company's position in 1972.

Deilcraft Division

Following a downturn in the total industry in 1970, our home furnishing sales showed a substantial improvement in 1971. Our two plants in Kitchener, plus Milverton and Wingham, all underwent numerous changes to permit more specialization which helped improve efficiency, quality of product, productive capacity and our overall ability to meet the demands of the marketplace. Although external sales expanded during the past year, the area of greatest improvement included our capability to manufacture a quality product at a competitive cost, plus the development of the broadest and most exciting range of bedroom suites we have offered, which will reach the market in the second quarter of 1972. The improvement in facilities, plus the acquisition of Flexsteel Industries (Canada) Ltd., places Deilcraft in the position of offering one of the widest selections of consumer and contract furniture available in Canada. The combined strengths of new products, excellent designs, recognized quality, expanded manufacturing capabilities and an aggressive marketing program, suggest that 1972 will be a period of considerable progress for the company's activities in the furniture field.

Motor Division

With the upswing in the North American economy in 1971, our sale of sub-fractional horsepower AC and DC Motors showed a meaningful increase. Expansion took place in the automotive and truck fields, and in the housing and appliance markets where a wide range of uses is closely tied to housing starts.

Continued efforts during 1971 resulted in improved factory operations, even though this division is somewhat handicapped by working out of three separate locations. It is expected that in 1972 a new motor plant will be required for additional capacity, the opportunity to broaden our range of products and to provide for improved efficiency.

Corporate Service Division

Electrohome's success has been predicated on our recognizing and satisfying the needs of our customers. Nowhere is this more evident than in the field of service.

During 1971, our total product service operation was centralized and expanded to assure that the needs of all our customers are looked after in the best possible manner. Major changes and expansion were undertaken, with the result that we have eleven branches and double the staff that were involved in this important area of our business in 1969. With the ever-increasing complexity and sophistication of many of our products, plus a period of rapid expansion, the need for a well trained, competent, customer-oriented staff has never been greater. Our progress has resulted in a close liaison between our engineering, manufacturing, sales and service operations across the company that is truly geared to look after our customers' needs.

Industrial Relations Division

It is a recognized fact at Electrohome that people are our most important asset. With our rapid expansion in 1971, this staff division has been deeply involved in the selection, training, and long-term development of our human resources, plus the benefits and working conditions of our people. Close liaison and communication has been maintained with our three operating unions – the International Brotherhood of Electrical Workers, the International Woodworkers of America, and the Canadian Union of Operating Engineers. As we are in very competitive industries (nationally and internationally) our wage and salary rates must be established accordingly. We are pleased to report however, that our levels of compensation compare most favourably in each area of operation. It is our desire and intention to maintain a close working relationship with all members of our organization and our hope that we can retain levels of employment and compensation that are in line with increases in productivity, the markets being served, and the needs of the individuals within their respective communities.



Executive Vice-President, Operations



Decorator styled humidifiers first introduced by Electrohome.



A companion product, popular in summer, is this contemporary dehumidifier.



Electronome's Motor Division produces over 1,500,000 small motors annually.



H.W. Main,
*Executive Vice-President,
Marketing*

The acceleration in Electrohome's 1971 consolidated sales — from approximately \$50 million to nearly \$70 million — was a total corporate effort. All divisions contributed to this outstanding performance, with color television sales recording an unprecedented 58.5% dollar increase over the previous buoyant levels established in 1970.

While a solid growth pattern for color television had already been established early in 1970, we were provided with further impetus with the subsequent removal of the 15% excise tax, the application of anti-dumping regulations and international monetary revaluation.

The aforementioned benefits accruing from governmental action will have an important long-term impact on the electronics industry. Currently, color television is only at the 27% saturation level in Canada and with improved pricing the future looks bright indeed for continued expansion.

Other Advances

Significant advances were made in all other phases of our home entertainment product lines. Traditional and uniquely styled modern stereo units advanced in dollar volume, as did black and white television, a diminishing market for many producers. Also, compact stereo and components generated new business for Electrohome through quality, design and performance.

The only negative factor in the electronics area was our reluctant phase-out of electronic organ designs during 1971. Despite a rewarding share of market, the size and potential of the market itself suggested our investment in technology, facility and marketing could more profitably be devoted elsewhere.

A prime example of this reconcentration of expertise is demonstrated in our growth record in educational television and video monitors. Installations in schools, airports, hospitals, banks, television stations, plus many other applications, illustrates the growing potential for these designs which are used as communication devices, visual aids, surveillance and monitoring units.

In home furnishings, our Deilcraft Division made significant gains. Sales growth jumped during the last half. On-going product development programs, especially case goods items such as bedroom suites, led to industry breakthroughs. This was demonstrated by the volume purchases made at our January 1972 furniture showings. We also continued our expansion as a custom moulder of urethane wood-like components which further complemented Deilcraft's activity.

In January 1972, Electrohome acquired Flexsteel Industries (Canada) Ltd., a manufacturer of quality upholstered designs and contract furniture. This has broadened our home furnishings base and opened new avenues of merchandising opportunity.

Comfort Appliances, which includes portable phonographs in its mode of distribution, also experienced a sales upsurge. As industry leaders, we recognize the continuing wants of consumers for improved environmental living and satisfying these demands with well designed, proven products.

Fractional horsepower motors, custom designed to meet the requirements of automotive, construction and appliance O.E.M. accounts, flourished in 1971. Design innovation, quality and a healthy economy will mean continued domestic and export market growth for this product.

Broadcasting Added

Late in 1970, Electrohome entered the broadcast field with the acquisition of Central Ontario Television Limited. Included was CKCO-TV (Channel 13), CFCA/FM and CKKW/AM. Success in this area has been most satisfying, including an exchange of marketing and engineering techniques which have direct benefits to the total company. Also, in mid 1971, a satellite transmitter, Channel 2 Georgian Bay, was opened in Ontario's vacation heartland. In addition to extending our communications service to a somewhat neglected area, the added coverage will enhance our earnings potential.

Electrohome's marketing philosophy has always dictated the need for a healthy domestic market to be successful in exporting to international accounts. This has been especially significant in 1971 with the changing international monetary environment. Despite this challenge and the temporary U.S.A. surtax, export customers have continued to select our uniquely styled and well engineered products.

To accomplish the sales records of 1971 (tripling in the last decade), Electrohome's leadership in aesthetic styling, and engineering for performance excellence has been of paramount importance. We continue to earn design awards and our products' performance has occasioned

perhaps the lowest service incidence factor within the industries in which we compete.

Another Electrohome milestone was reached in 1971 as we expanded our multi-media advertising programs to include co-sponsorship of Canadian Football. Our commercials expressed the "extra degree of excellence" for all products in a unique corporate manner. From comments received, both from dealers and consumers, our thoughts were well conveyed.

Public Relations activities at Electrohome have been equally progressive. The image of a good corporate citizen must be realistically presented to all segments of society. The involvement is not just community in scope, but international.

The use of Market Research capabilities provided a meaningful assist to all product and marketing areas of the company. Surveys and detail studies at many levels served to audit and provide direction to improve the company's operations.

Outlook '72

Electrohome can only look to the future with unrestrained enthusiasm. Consistent marketing policies backed by excellent products have attracted an ever-expanding consumer following, a position we will endeavour to maintain.

Factors which suggest accomplishing energetic goals include a brightening employment picture, strength in auto sales, plus further improvement on the 25% increase in housing starts in 1971. Family formations are also in for a big increase during the 70's and emphasis on leisure time continues to play an important part in an affluent market. It is our products that can fulfill the wants of this potential.

Color television is at a low saturation level and second set purchases are in evidence. Home entertainment, home furnishings and home comfort items are now consumer by-words.

The broadcast industry, dynamic and aggressive, will grow under specific CRTC guidelines. Electrohome's involvement, short and long term, will be one of maximum contribution and return.

There is every reason, therefore, for Electrohome to sustain a healthy growth in sales, not only for the exciting days of 1972, but for many years to come.



Executive Vice-President, Marketing



Unique product designs range from futuristic to contemporary to traditional in styling.



D. S. Sykes,
*Executive Vice-President,
Finance*

In 1971 all the indices pointed to a substantial strengthening of the company's financial position as indicated by the results of excellent sales and profits reported on earlier. With an increase of 36% in sales, accounts receivable at December 31 were only 10.9% above the previous year which represents 34.8 days sales outstanding compared to 42.5 days a year earlier. Inventories dropped 20% due in part to the heavy demand during the fall selling season for most of our products, particularly color television. However, improved planning and controls are also contributing to a faster turnover of inventory with the resultant savings in warehousing, interest and other carrying charges.

Capital and Facilities

The heavy demand for our products prompted your Directors to approve an addition to our main warehouse of 130,000 sq. ft. to replace less efficient rented space and to our electronics manufacturing plant of 87,000 sq. ft. These two additions, which are to be completed in 1972, are expected to cost in total \$1,715,000 and progress payments amounting to \$592,000 were applied in 1971. The other major capital expenditure involved the construction of Channel 2 at Wiarton by our subsidiary, Central Ontario Television Limited. This amounted to \$536,000 and the facilities went on the air last May. In spite of these expenditures for capital equipment, we increased our working capital by \$1,251,800 which, together with the reduction in accounts receivable and inventories, reduced our bank borrowings by more than \$6½ million at the end of 1971 as compared to the previous year.

The improved working capital position which has resulted from the above trends is most gratifying. However, your Directors feel that our working capital position should be improved still further and plans are underway at the time of writing to increase our long-term debt to approximately \$8 million and apply the net proceeds to our current working funds.

Operating Trends

The substantial improvement in production during the last three years is resulting in economies of scale that are now having a very positive effect on our earnings. A good example is our expenditures in engineering and design. The company has been, for many years, committed to a policy of being self-sufficient in the area of product development. In the course of acquiring this self-sufficiency, it was necessary to incur abnormally high expenses for a period which represented an investment in development costs for products to be produced in future years and at the same time continue to purchase outside engineering for current requirements. Until 1966 our total expenditures tended to stay at about 3% of sales (see the appropriate chart on page 15). While we increased actual expenditures from \$1,146,000 in 1970 to \$1,423,000 in 1971, the percentage relationship to sales dropped from 2.2% to 2.0%.

Similar trends are appearing in production and marketing costs which is placing your company in a much more competitive position. The accompanying charts showing total square feet occupied and total employment over the last ten years also illustrate this improving trend. While sales in the ten years have more than tripled, space requirements have increased by 2½ times and employment by 1.6.

Subsidiaries

As we reported in last year's annual report, Central Ontario Television Limited was acquired late in 1970 by Electrohome Communications Limited, a subsidiary established for this purpose by Electrohome, and was consolidated for operating statement purposes at January 1, 1971. This acquisition involved a total outlay of \$4,300,000 including the issuing of 109,500 shares of Electrohome common stock. In spite of the start-up costs connected with the opening of Channel 2 in the Georgian Bay area in May, this subsidiary was successful in increasing its profits over the previous year by 58% which, your Directors feel, adequately justifies the values placed on the shares of this company at the time of acquisition.

Another acquisition, reported as a subsequent event in the notes to the financial statement because the actual date of the acquisition is January 1, 1972, involves the purchase of all the outstanding shares of Flexsteel Industries (Canada) Ltd., of Stratford, Ontario. This transaction involved some cash and 5,000 common shares of Electrohome. This company was acquired to round out the manufacturing and marketing facilities for our Deilcraft Home Furnishings Division and the results achieved in the short time since the date of acquisition indicate that the facilities acquired in this transaction

will enhance the earnings of the Home Furnishings Division in 1972.

Management and Control

With the increased volume in sales and including the acquisition of the two subsidiaries referred to above, the need for more efficient management and control information has become apparent and the company has established a separate department responsible for management information systems. This change recognizes the degree of maturity that the computer and systems management has reached in our company, and the emphasis that is to be placed by the company in extending the use of these facilities as a management and communications tool. Good progress has been made to date in this area and this is illustrated in the excellent results in inventory turnover reported earlier. Credit to these performance figures must be shared with the extraordinary demand for color television which has resulted in abnormally low inventory levels in 1971. Our objective is to achieve continuing improvement in our cash flow over the long term through the use of this facility.

Future Prospects

The additional facilities now being completed will permit further expansion in sales and improve efficiencies. The dollars required to provide the additional facilities are reasonable in view of the potential production

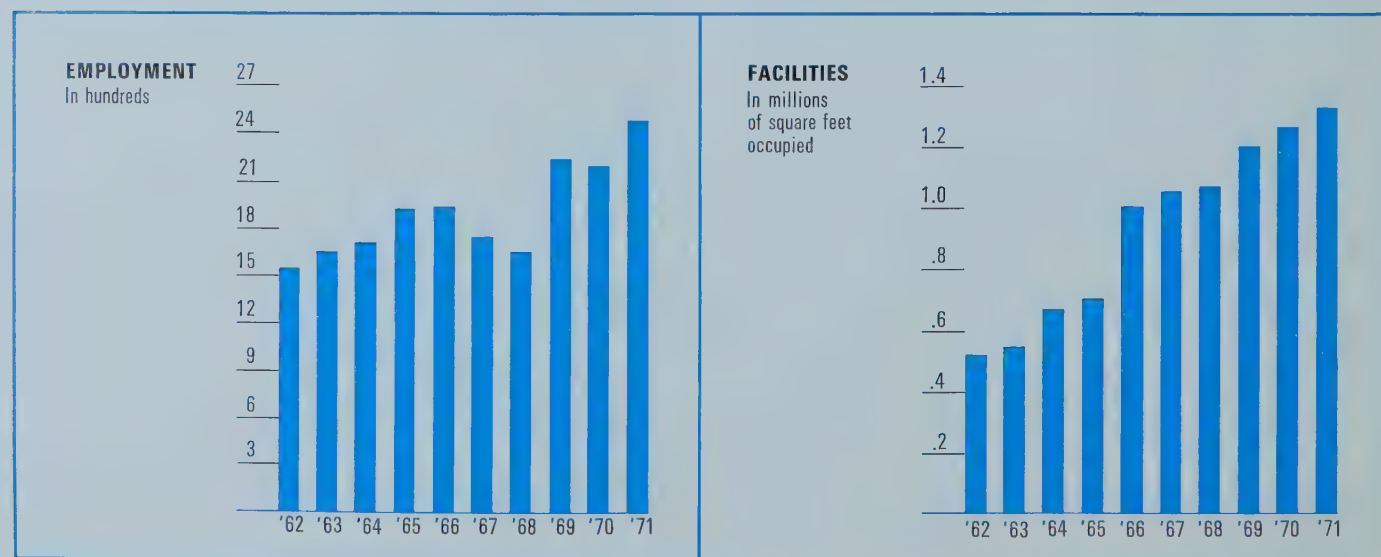
capacity which will become available and will create no financial strain on our working capital. We are looking forward to a continuation of the trends in 1972 which have been established in the past year.

A number of events that have taken place in the last year have had a positive effect on our industry or on the economy in general. Removal of the excise tax in May, 1971, the revaluation of the Japanese yen and other foreign currencies, made many of our products more competitive in the industries we serve. The action taken by the Federal Government with respect to the Income Tax Act has removed a great deal of uncertainty in the fields of commerce, permitting businessmen to "get on with the job" and concentrate on more constructive problems, although the new Act has introduced some new problems in interpretation which may delay certain business actions until the appropriate sections are clarified.

Economic indicators point to a more buoyant economy in the months ahead, and we feel the prospects for 1972 are excellent.



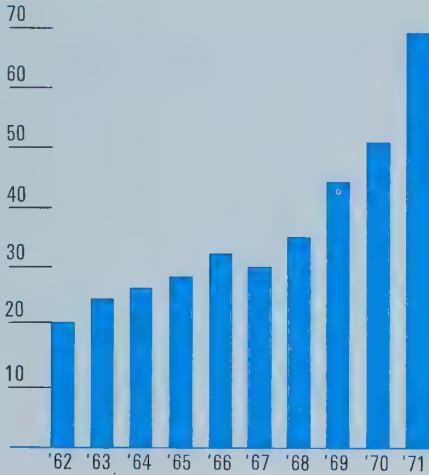
Executive Vice-President, Finance



STATISTICAL CHARTS

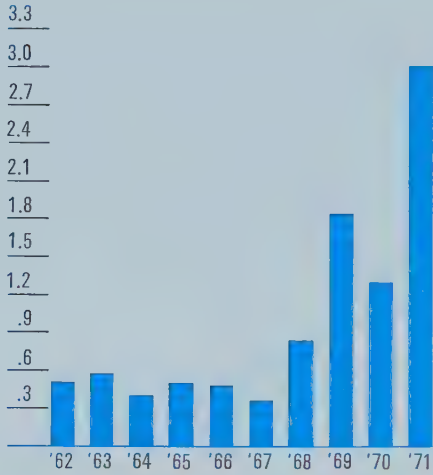
SALES

In millions
of dollars



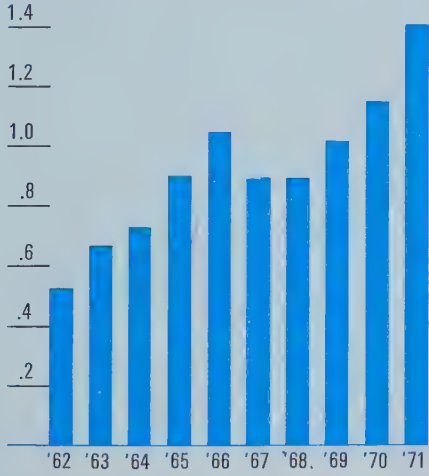
NET INCOME

In millions
of dollars



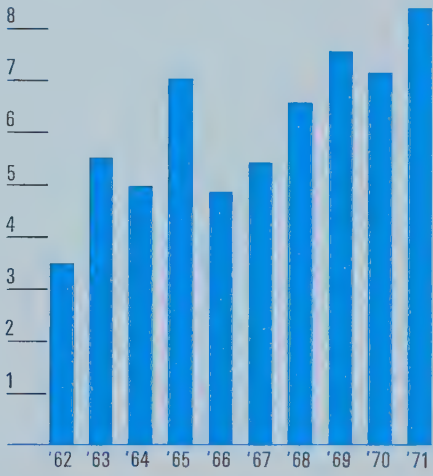
EXPENDITURE,
ENGINEERING
AND DESIGN

In millions
of dollars



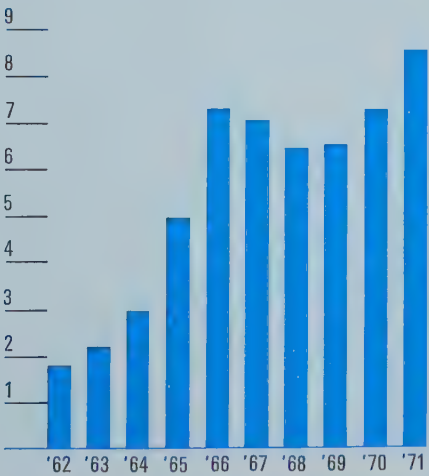
WORKING
CAPITAL

In millions
of dollars



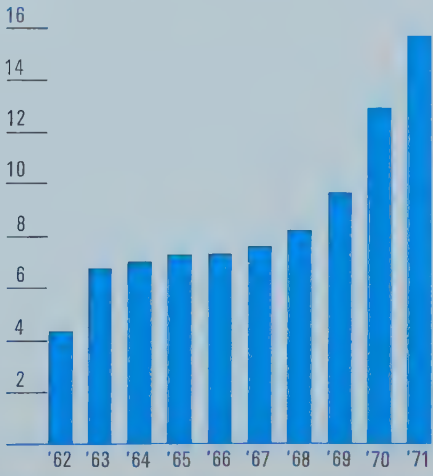
FIXED ASSETS

In millions
of dollars



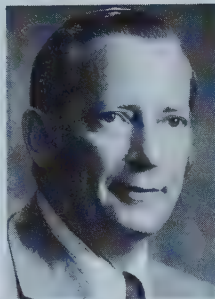
SHAREHOLDERS'
EQUITY

In millions
of dollars





G.L. Duern



H.I. Eby



B.F. Ellis



S.P. Englert



R.R. Freure



R.W. Johnson



D.H. Johnston



H.H. LaPier



M.G. Monteith



H.J. Ruetz



S.M. Douglas



W.D. McGregor

General Managers

G.L. Duern, *Director of Design*

H.I. Eby, *Secretary-Treasurer*

B.F. Ellis, *General Sales Manager,
Consumer Products,
Electronic Products Division*

S.P. Englert, *General Manager,
Motor Division*

R.R. Freure, *General Manager, Marketing
Electronic Products Division*

R.W. Johnson, *General Manager,
Appliance Division*

D.H. Johnston, *General Manager,
Engineering/Manufacturing,
Electronic Products Division*

H.H. LaPier, *General Manager,
Corporate Service Division*

M.G. Monteith, *General Manager,
Industrial Relations*

H.J. Ruetz, *General Manager,
Deilcraft Division*

Subsidiary Companies

S.M. Douglas, *President & General Manager,
Flexsteel Industries (Canada) Ltd.*

W.D. McGregor, *Vice-President & General Manager,
Central Ontario Television Limited*



CONSOLIDATED STATEMENT OF INCOME (with comparative figures for 1970)

	Year ended December 31	
	1971	1970
Sales	\$69,753,530	\$51,299,551
Cost of sales, selling, administrative and financial expenses	62,331,092	47,597,977
Income before undernoted items	7,422,438	3,701,574
Depreciation	886,919	700,389
Interest on long term debt	211,012	227,010
Amortization of excess of cost over book value of shares of subsidiary company (note 4)	60,982	
	1,158,913	927,399
Income before income taxes	6,263,525	2,774,175
Income taxes		
Current	3,297,700	1,662,000
Deferred	(46,800)	(197,000)
	3,250,900	1,465,000
<i>Net income for the year</i>	<u>\$ 3,012,625</u>	<u>\$ 1,309,175</u>
<i>Earnings per common share</i>	<u>\$4.95</u>	<u>\$2.55</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1971	1970
<i>Balance at beginning of year</i>	\$ 7,804,247	\$ 6,777,355
Net income for the year	3,012,625	1,309,175
Discount on purchase for cancellation of preference shares (note 9)	33,032	11,385
	10,849,904	8,097,915
Dividends on		
Preference shares	99,039	104,446
Common shares	234,942	189,222
	333,981	293,668
<i>Balance at end of year</i>	<u>\$10,515,923</u>	<u>\$ 7,804,247</u>



CONSOLIDATED BALANCE SHEET (with comparative figures at December 31, 1970)

	December 31	
	1971	1970
Assets		
<i>Current assets</i>		
Cash	\$ 85,864	\$ 548,617
Accounts receivable	9,944,152	8,968,548
Inventories (note 2)	11,404,745	14,265,902
Prepaid expenses	710,039	485,558
	<u>22,144,800</u>	<u>24,268,625</u>
<i>Fixed assets (note 3)</i>		
Land, buildings, machinery and equipment, at cost	16,539,516	14,403,951
Less accumulated depreciation	<u>7,927,667</u>	<u>7,080,996</u>
	8,611,849	7,322,955
<i>Excess of cost over book value at date of acquiring shares of subsidiary company, less amortization (note 4)</i>	<u>2,378,301</u>	<u>2,439,283</u>
	<u>\$33,134,950</u>	<u>\$34,030,863</u>

Approved by the Board
C.A. Pollock, *Director*
D.S. Sykes, *Director*

(Incorporated under the laws of Ontario)

	December 31	
	1971	1970
Liabilities		
<i>Current liabilities</i>		
Bank advances, against which book debts and inventories have been pledged	\$ 4,414,417	\$10,958,972
Accounts payable and accrued liabilities	6,580,582	4,816,731
Sales and excise taxes payable	621,008	942,652
Income and other taxes payable	1,450,931	83,372
Deferred service contract income	404,370	—
Principal due within one year on long term debt	221,285	266,544
	<u>13,692,593</u>	<u>17,068,271</u>
<i>Long term debt (note 5)</i>	<u>3,031,966</u>	<u>3,253,251</u>
<i>Deferred income taxes</i>	<u>738,000</u>	<u>784,800</u>
Shareholders' Equity		
<i>Capital stock (note 6)</i>	\$ 5,156,468	\$ 5,120,294
<i>Retained earnings</i>	10,515,923	7,804,247
	<u>15,672,391</u>	<u>12,924,541</u>
	<u>\$33,134,950</u>	<u>\$34,030,863</u>

LONG TERM LEASES (note 7)
COMMITMENTS (notes 3 and 8)

Auditors' Report

To the Shareholders of Electrohome Limited

We have examined the consolidated balance sheet of Electrohome Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
March 14, 1972

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS year ended December 31, 1971

1. Basis of consolidation

The consolidated financial statements for the year ended December 31, 1971 include the accounts of the following wholly-owned subsidiary companies:

Electrohome Communications Limited
Central Ontario Television Limited
Hawkesville Lumber Limited

The comparative figures include the accounts of Hawkesville Lumber Limited for the year ended December 31, 1970 and the financial position of Electrohome Communications Limited and Central Ontario Television Limited as at December 31, 1970. The results of operations of the latter two subsidiary companies from acquisition late in 1970 were insignificant and were excluded in 1970.

2. Inventories

	1971	1970
Raw materials	\$ 4,479,220	\$ 4,244,750
Work in process	1,618,420	1,486,071
Finished goods	5,307,105	8,535,081
	<u>\$11,404,745</u>	<u>\$14,265,902</u>

Raw materials are valued at lower of cost and replacement cost. Work in process and finished goods are valued at lower of cost and net realizable value.

3. Fixed assets

	1971		1970	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 314,014		\$ 314,014	\$ 274,460
Buildings	6,079,309	1,349,902	4,729,407	3,996,655
Machinery and equipment	9,627,502	6,195,898	3,431,604	2,931,664
Automotive equipment	518,691	381,867	136,824	120,176
	<u>\$16,539,516</u>	<u>\$7,927,667</u>	<u>\$8,611,849</u>	<u>\$7,322,955</u>

Depreciation is provided on the straight line basis to amortize the cost of the assets over their estimated useful life.

At December 31, 1971 there were contracts for additions to buildings in progress amounting to \$1,715,000 of which \$592,000 had been capitalized and the balance of commitment amounted to approximately \$1,123,000.

4. Excess of cost over book value

The excess of cost over book value at date of acquiring shares of a subsidiary company is being amortized over forty years.

5. Long term debt

	1971	1970
6% Secured sinking fund debentures, Series A, maturing August 15, 1985	\$3,200,000	\$3,410,000
Notes payable \$6,994 annually with interest at prime bank rates	48,960	55,954
7% Purchase contract payable \$4,316 monthly including principal and interest, maturing January 10, 1972	4,291	53,841
	<u>3,253,251</u>	<u>3,519,795</u>
Less principal included in current liabilities	<u>221,285</u>	<u>266,544</u>
	<u>\$3,031,966</u>	<u>\$3,253,251</u>

Principal due within each of the next five years is as follows:

1972	\$221,300
1973 to 1976 inclusive	217,000 per annum

The sinking fund debentures are secured by a first mortgage on all real property and by a general floating charge on all other assets of Electrohome Limited.

6. Capital stock

	1971	1970
Authorized		
96,972 Preference shares, par value \$100 per share, issuable in series		
1,000,000 Common shares without par value		
Issued		
16,972 5% Cumulative redeemable preference shares, Series A (17,975 shares in 1970)	\$1,697,200	\$1,797,500
588,830 Common shares (582,730 shares in 1970)	<u>3,459,268</u>	<u>3,322,794</u>
	<u>\$5,156,468</u>	<u>\$5,120,294</u>

Series A preference shares are redeemable at \$104 per share if redeemed on or before May 1, 1972 and \$103 per share if redeemed thereafter.

In accordance with provisions relating to the Series A preference shares, a reserve is to be appropriated as a purchase fund on January 2 in every year to be used to purchase all preference shares available at \$100 or less up to a total of 400 shares in each calendar year. During the year the company purchased for cancellation 1,003 shares at an average cost of \$67 per share.

During the year 6,100 common shares were issued for cash of \$136,474 under the terms of options granted in 1970 and 1971. Options to purchase 2,350 common shares at \$32.00 per share are outstanding and expire May 25, 1972.

7. Long term leases

The company is obligated under long term lease agreements to pay annual rentals of \$173,726 until January 31, 1981 and \$117,500 thereafter until August 1, 1988. The lease bearing an annual rental of \$117,500 until August 1, 1988 may, at the company's option, be extended for an additional fifteen years beyond the termination date at an annual rental of \$58,000.

8. Commitments

During the year the company paid \$82,470 (\$61,429 in 1970) against its commitment for past service pensions under employees' pension plan agreements. There is no provision in the accounts for the payment of the balance of the commitment, estimated at \$940,000, which is to be paid within the next sixteen years. The company intends to pay this amount within the time permitted or earlier as the cash position of the company permits. The related costs will be charged against income in the year of payment.

9. Comparative figures

In prior years the discount on purchase for cancellation of preference shares was insignificant and was included in income. Because of its significance in 1971 it has been reflected in the statement of retained earnings and the comparative figures for 1970 have been restated to conform with this presentation.

Sales arising from consumer service departments were in prior years applied to reduce relative expenses but as a result of expanded operation in these areas in 1971 they are now shown in total sales and the comparative figures for 1970 have been reclassified to conform with the 1971 presentation.

10. Other information

Aggregate direct remuneration of directors and senior officers (as defined by The Business Corporations Act) is \$316,191 (\$314,994 in 1970). On January 1, 1972 the company acquired all the issued shares of Flexsteel Industries (Canada) Ltd. for consideration of cash and 5,000 shares of Electrohome Limited.



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (with comparative figures for 1970)	Year ended December 31	
	1971	1970
Source of funds		
Operations		
Net income for the year	\$3,012,625	\$1,309,175
Items not involving current funds		
Depreciation	886,919	700,389
Amortization of excess of cost over book value of shares of subsidiary company	60,982	—
Deferred income taxes	(46,800)	(197,000)
	<u>3,913,726</u>	<u>1,812,564</u>
Sale of fixed assets	29,393	67,162
Issue of common shares	136,474	2,199,157
Deferred income taxes assumed on acquisition of subsidiary company	—	7,900
	<u>4,079,593</u>	<u>4,086,783</u>
Application of funds		
Excess of cost over book value at date of acquiring shares of subsidiary company	—	2,439,283
Additions to fixed assets		
On acquisition of subsidiary company	—	836,163
Other	2,205,206	693,494
Reduction of long term debt	221,285	266,545
Dividends on		
Preference shares	99,039	104,446
Common shares	234,942	189,222
Preference shares purchased for cancellation	67,268	28,615
	<u>2,827,740</u>	<u>4,557,768</u>
<i>Increase (decrease) in working capital</i>	<u>1,251,853</u>	<u>(470,985)</u>
<i>Working capital at beginning of year</i>	<u>7,200,354</u>	<u>7,671,339</u>
<i>Working capital at end of year</i>	<u>\$8,452,207</u>	<u>\$7,200,354</u>

Condensed Statement of Assets and Liabilities (Figures in thousands of dollars)

	1971	1970
Current Assets		
Cash and accounts receivable	\$10,030	\$ 9,517
Inventories	11,405	14,266
Other	710	485
	<u>22,145</u>	<u>24,268</u>
Current Liabilities		
Bank advances	4,414	10,959
Accounts payable and other liabilities	9,279	6,109
	<u>13,693</u>	<u>17,068</u>
Working Capital	8,452	7,200
Fixed assets and other non current assets	8,612	7,323
Excess of cost over book value (see Balance Sheet)	2,378	2,439
Working Capital and Other Assets	<u>19,442</u>	<u>16,962</u>
Long term debt	3,032	3,253
Deferred income taxes	738	785
Minority interest in subsidiary company	—	—
	<u>3,770</u>	<u>4,038</u>
Shareholders' Equity	<u>\$15,672</u>	<u>\$12,924</u>
<i>Consisting of</i>		
Capital stock	5,156	5,120
Retained earnings	10,516	7,804
	<u>\$15,672</u>	<u>\$12,924</u>
Other Financial Information		
Sales	\$69,753	\$51,299
Depreciation and amortization	948	700
Interest on long term debt	211	227
Income before income taxes	6,263	2,774
Income taxes	3,251	1,465
Minority shareholders' interest in net income for the year	—	—
Net income for the year	\$ 3,012	\$ 1,309
Number of common shareholders	1,108	1,364
Common shares outstanding	588,830	582,730
Earnings per common share (after allowing for preference share dividends)	\$ 4.95	2.55
Dividends per common share	\$.40	.40
Common shareholders' equity per share	\$ 23.73	19.09
Earnings on equity per common share	20.87%	13.36%

1969	1968	1967	1966	1965	1964	1963	1962
\$ 6,687	\$ 5,862	\$ 4,690	\$ 6,306	\$ 4,192	\$ 4,208	\$ 3,960	\$ 3,162
11,755	8,423	9,726	10,074	9,411	8,248	9,228	6,874
280	201	172	311	159	138	46	45
<u>18,722</u>	<u>14,486</u>	<u>14,588</u>	<u>16,691</u>	<u>13,762</u>	<u>12,594</u>	<u>13,234</u>	<u>10,081</u>
3,936	3,391	5,824	8,276	3,153	5,056	5,015	3,969
7,115	4,477	3,304	3,533	3,514	2,553	2,665	2,585
<u>11,051</u>	<u>7,868</u>	<u>9,128</u>	<u>11,809</u>	<u>6,667</u>	<u>7,609</u>	<u>7,680</u>	<u>6,554</u>
7,671	6,618	5,460	4,882	7,095	4,985	5,554	3,527
6,561	6,420	7,052	7,296	4,954	2,995	2,187	1,761
—	—	—	—	—	—	—	—
<u>14,232</u>	<u>13,038</u>	<u>12,512</u>	<u>12,178</u>	<u>12,049</u>	<u>7,980</u>	<u>7,741</u>	<u>5,288</u>
3,520	3,782	4,038	4,083	4,295	720	760	800
974	1,077	877	530	364	259	122	53
—	—	—	42	30	—	—	—
<u>4,494</u>	<u>4,859</u>	<u>4,915</u>	<u>4,655</u>	<u>4,689</u>	<u>979</u>	<u>882</u>	<u>853</u>
<u>\$ 9,738</u>	<u>\$ 8,179</u>	<u>\$ 7,597</u>	<u>\$ 7,523</u>	<u>\$ 7,360</u>	<u>\$ 7,001</u>	<u>\$ 6,859</u>	<u>\$ 4,435</u>
2,961	2,959	2,974	3,011	3,031	2,997	2,958	797
6,777	5,220	4,623	4,512	4,329	4,004	3,901	3,638
<u>\$ 9,738</u>	<u>\$ 8,179</u>	<u>\$ 7,597</u>	<u>\$ 7,523</u>	<u>\$ 7,360</u>	<u>\$ 7,001</u>	<u>\$ 6,859</u>	<u>\$ 4,435</u>
\$44,499	\$35,655	\$30,038	\$32,594	\$28,368	\$26,811	\$24,719	\$21,199
630	606	619	466	333	287	229	186
244	262	276	262	117	47	49	52
3,970	1,769	739	788	765	780	1,140	1,018
2,117	924	370	292	259	377	563	515
—	—	8	12	10	—	—	—
<u>\$ 1,853</u>	<u>\$ 845</u>	<u>\$ 361</u>	<u>\$ 484</u>	<u>\$ 496</u>	<u>\$ 403</u>	<u>\$ 577</u>	<u>\$ 503</u>
1,247	1,435	1,610	1,669	1,308	1,217	1,156	1,048
472,805	469,905	467,280	467,080	465,505	462,355	458,940	423,665
3.69	1.57	.53	.79	.82	.62	1.10	1.19
.40	.30	.30	.40	.40	.40	.40	.20
16.71	13.41	12.15	11.92	11.52	10.82	10.59	10.47
22.08%	11.70%	4.36%	6.66%	7.11%	5.75%	10.38%	11.34%



Central Ontario Television Limited originates many studio productions, including popular public service events.



A wide range of unique upholstered designs are displayed at Flexsteel's modern showroom facility.

Products

Home Entertainment

Stereo Hi-Fidelity, Color and B&W Television, Stereo Components, Portable Phonographs, Tape Cassettes, Environment I Four Channel Sound Systems.

Home Furnishings

Deilcraft Tables, Dining Room Suites, Bedroom Suites, Cedar Chests, Lamps, Flexsteel Upholstered Designs and Magic Beds

Home Comfort

Fans, Humidifiers, Dehumidifiers and Combinations, Air Purifiers, Air Conditioners, Baseboard Heaters

Commercial Products

Fractional Horsepower Motors
Educational TV Receiver/Monitors
Educational Phonographs
Professional Video Monitors
Contract Television — B&W and Color
Flexsteel Contract Designs — Upholstered and Case Polyurethane Components

Electrohome's Head Office located in Kitchener.

Facilities

Kitchener

Head Office/Electronic Engineering Laboratory/
Electronics Division Plant;
Motor Division Plant; Appliance Division Plant;
Deilcraft Division Cabinet/Furniture Plant;
Polyurethane Plant; Central Warehouse;
National Service Headquarters

New Hamburg

Flexsteel Contracts Furniture Plant

Milverton

Deilcraft Occasional Furniture Plant

Stratford

Flexsteel Upholstered Products Plant

Wingham

Deilcraft Lamp/Chair Plant

Service Branches

Waterloo, Toronto, Ottawa, Sudbury, Hamilton,
Winnipeg, Regina, Calgary, Edmonton, Vancouver,
Victoria

Branches

Toronto, Winnipeg, Calgary, Edmonton, Vancouver

Broadcast Facilities

Kitchener

Head Office, Studios, Transmitter for
CKCO-TV (Channel 13) CFCA-FM Stereo Radio,
CKKW-AM Radio

Warton

Satellite for CKCO-TV (Channel 2, Georgian Bay)



